

Income tax refund fraud

Joint Committee on Ways & Means
Subcommittee on General Government

March 10, 2015



Background

- Old school fraud
 - Altered W-2 forms.
 - Enhanced deductions.
- Today's fraud
 - Stolen identities.
 - Fictitious W-2 information.
- Identities stolen through data breaches.



Refund processing

- Conflicting goals
 - Verify accuracy of refund.
 - Issue refunds quickly.
- Delays
 - Trade off for fraud detection.
 - More manual review.
 - Slower refunds.
 - Took 26 days in 2012.
 - Took 60 days in 2014.



Discovery and recovery of fraud

- Difficult to detect
 - Rules based filters.
 - True amount of fraud is unknown.
- Difficult to recover
 - Funds are typically direct deposit.
 - Filer's location is generally unknown.

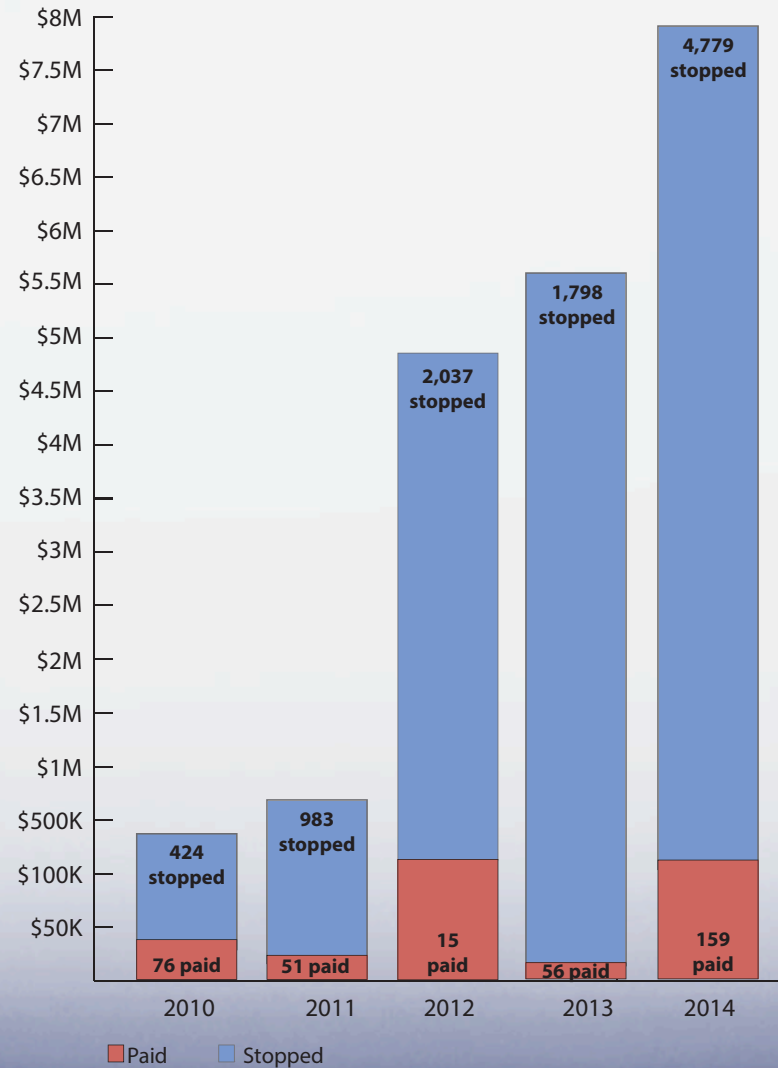


Fraud is growing

- Internal Revenue Service
 - Estimated \$29.4 billion fraudulent attempts in 2013.
 - Stopped \$24.2 billion (82 percent of attempts).
- Oregon Department of Revenue
 - Stopped over 4,700 fraudulent refunds; nearly \$7.8 million.
 - Paid 156 refunds; just over \$144,000.



Refund fraud in Oregon



Note: Paid amounts reflect unrecovered refund amounts.



Fraud studies

- LexisNexis
 - Analyzed 2011 tax-year returns.
 - Identified 93,000 as “suspicious” (\$41 million).
 - Flagged 4,802 as “highly suspicious” (\$2.2 million).
- ARM Insight
 - 2012 tax-year returns.
 - Reviewed ACH data and found 22 potentially fraudulent refunds for \$10,585.

Future strategies

- As fraud evolves, so must Dept. of Revenue.
 - Use internal business rules.
 - Dedicated staff resources.
 - Implement data exchange with other states.
 - Proposed:
 - Commercial data analytics.
 - Public data.
 - Identity quizzes.
 - Real-time withholding match during processing.



Questions?

If you have additional questions after today please contact:

Ken Ross

ken.ross@oregon.gov

503-945-8890

